



minnesota power / 30 west superior street / duluth, minnesota 55802-2093 / 218.723.3971 / www.mnpower.com

Postal Regulatory Commission
Submitted 3/20/2017 4:07:53 PM
Filing ID: 99555
Accepted 3/20/2017

Patrick K. Mullen
Vice President, Marketing and Corporate Communications
Fax 218.723.3923
pmullen@mnpower.com

March 20, 2017

Mr. Richard A. Oliver
901 New York Avenue N.W. Suite 200
Postal Regulatory Commission
Washington, D.C. 20268-0001

RE: Ten-Year Rate System Review, Docket No. RM2017-3

Dear Commissioner Oliver:

Minnesota Power appreciates the opportunity to submit the following comments regarding the 10 year review of the system for regulating rates and classes for market dominant products.

Minnesota Power is an electric utility company based in Duluth, MN. We provide electricity in a 26,000-square-mile service area in northeastern Minnesota. We serve approximately 145,000 residential and commercial customers, 16 municipalities and some of the nation's largest industrial customers – including four pulp and paper mills.

Nationally, the forest products industry manufactures over \$200 billion in products annually and employs about 900,000 men and women with an annual payroll of approximately \$50 billion. In Minnesota, the forest products industry is the fifth largest manufacturing sector and provides 30,500 high-paying jobs at an annual payroll of \$1.6 billion.

The Postal Service is a vital part of the paper industry. Paper mills depend on cost effective and timely delivery of the final products their paper is used for. Almost 40% of the communication papers manufactured by the industry are delivered through the mail system. The Postal Service is integral to the success of the paper industry – providing the infrastructure required for printers, direct mailers and publishers to connect with every American household through print.

Increased postage rates have a direct and negative impact on the printing and mailing of catalogues, magazines and direct mail. This quickly translates to a decline in the demand for the paper used in the production of these publications.

The relationship between increased postage rates and the decline in circulation and direct mail could produce a “death spiral” for the Postal Service where higher postage rates result in fewer mail pieces, which then results in a decline of Postal Service revenue and efficiency. This also creates a “demand destruction” effect that cascades into the paper industry resulting in continued paper demand deterioration and ultimately to paper machine shuts and mill closures.

The Consumer Price Index (CPI) Cap is a key component of the Postal Accountability and Enhancement Act of 2006. Under this cap, the Postal Service would no longer be able to react to declining revenues

March 20, 2017

simply by raising rates. Instead, it would be required to focus on improving its business model by cutting costs and increasing efficiency. Further, to protect against the situation in which the Postal Service would simply reduce service levels to cut costs and retain profits, Congress required the Postal Service to establish and maintain "high quality service standards." Minnesota Power opposes the Postal Service's desire to eliminate these provisions.

The CPI cap is essential to ensuring mail is a cost competitive business communication option. In addition, rate stability and predictability are necessary for business to stay with mail. Increasing prices and/or reducing service are not a successful strategy to address declining demand. The CPI cap is a necessary tool to encourage the Postal Service to improve service and further reduce costs.

Commercial mailers represent 90% of mail volume and they are constantly evaluating the relative costs of connecting with their customers. Today, postage costs represent 55-70% of the total cost for mailers to choose print. Increased postage rates will accelerate the decline in mail volume. Just as the pulp and paper industry, Minnesota Power and other private sector businesses have had to do; the Postal Service can further reduce costs and increase efficiencies to ensure continued, reliable service. The CPI Cap and mandate to maintain high quality service standards are key to achieving these goals.

Again, thank you for the opportunity to submit these comments.

Sincerely,

A handwritten signature in black ink, reading "Patrick K. Mullen". The signature is fluid and cursive, with a large initial "P" and "M".

Patrick K. Mullen

Vice President, Marketing and Corporate Communications

cc: The Honorable Al Franken
The Honorable Amy Klobuchar
The Honorable Rick Nolan